

Review of Local Council Tax Support Scheme



Report to:	Cabinet
Date:	10 December 2024
Portfolio Holder:	Councillor James Leppard, Portfolio Holder for Finance
Lead Officer:	Jacqueline Van Mellaerts, Assistant Director – Finance and Section 151 Officer (01279) 446251
Contributing Officer:	Donna Beechener, Assistant Director – Revenues and Benefits (01279) 446245
Key Decision:	Yes
Forward Plan:	Forward Plan number I017322
Call In:	This item is not subject to call in procedures because it stands as a recommendation to Full Council
Corporate Mission:	Delivering High performing Council services
Wards Affected:	None specifically

Executive Summary

- A** The purpose of this report is to recommend to Council the proposed changes to the Council's Council Tax Reduction Scheme.
- B** Each year the Council is required to review its Council Tax Reduction Scheme in accordance with the requirements of schedule 1A of the Local Government Finance Act 1992 and to either maintain the scheme or replace it.
- C** Council Tax Reduction (CTR) (or Council Tax Support as it is known locally), was introduced from 1 April 2013 when it replaced the Central Government funded Council Tax Benefit regime. From its inception, the funding available to the Council from government has reduced year on year.
- D** As with the majority of authorities within England, the Council needs to make changes to the CTR scheme for working age applicants (the scheme for pension age applicants in

prescribed by Central Government) in order to reduce the significant administrative burden placed on the Council by the introduction of Universal Credit.

- E** This report outlines the proposals to change the scheme for working age applicants and to implement the new scheme by April 2026.

Recommended that Cabinet:

- A** Endorse the introduction of the new income banded Council Tax Reduction Scheme for working age applicants This will:

- make the scheme easier to understand and access;
- provide the same level of support for households on the lowest incomes;
- make the scheme work better with the Universal Credit system;
- support families and applicants who receive a disability benefit;
- take away the need for constant changes in awards; and
- make the scheme easier to manage

- B** Recommend to Full Council to approve the new banded Council Tax Reduction Scheme.

- C** Recommend to Full Council to give delegated authority to the Assistant Director – Finance in consultation with the Portfolio Holder for Finance to implement the scheme by April 2026.

Reason for decision

- A** There is an immediate requirement for a new Council Tax Reduction scheme for working age applicants if the Council's scheme is to remain viable in the medium and longer term.

Other Options

- A** The alternative to introducing a new income-banded scheme for Council Tax Reduction is to continue with the existing scheme in place. However, because of the implementation of Universal Credit, this would significantly increase the costs of administration, and in the longer term, continue to significantly affect the collection of Council Tax and the effectiveness of the scheme to support households within the Council's area.

Background

1. Council Tax Reduction (CTR) was introduced by Central Government in April 2013 as a replacement for the Council Tax Benefit scheme administered on behalf of the Department for Work and Pensions (DWP). As part of the introduction, the Government:

- Placed the duty to create a local scheme for **Working Age** applicants with billing authorities;
 - Reduced initial funding by the equivalent of ten per cent from the levels paid through benefit subsidy to authorities under the previous Council Tax Benefit scheme; and
 - Prescribed that persons of **Pension age** would be dealt with under regulations set by Central Government and not the authorities' local scheme.
2. Since that time, funding for the Council Tax Reduction scheme has been amalgamated into other Central Government grants paid to Local Authorities and also within the Business Rates Retention regime. It is now generally accepted that it is not possible to identify the amount of funding actually provided from Central Government sources.
 3. The current Council Tax Reduction scheme administered by the Council is effectively divided into two, with pension age applicants receiving support under the rules prescribed by Central Government, and the scheme for working age applicants being determined solely by the local authority.
 4. Pensioners, subject to their income, can receive up to 100 per cent support towards their Council Tax. The Council has no power to change the level of support provided to pensioners and therefore any changes to the level of CTR can only be made to the working age scheme.
 5. When Council Tax Reduction was introduced in 2013, for working age applicants, the Council broadly adopted the previous means-tested Council Tax Benefit scheme as the basis of awarding support however, the maximum level of support that could be provided, due to the reduction in financial support from Central Government is 75% (under the previous fully centrally funded Council Tax Benefit scheme up to 100% support would have been provided).
 6. As with other means tested schemes, there is a capital limit. This is currently £6,000.
 7. Where the household contains other adults (non-dependants) a deduction can be made from the applicant's support depending on the circumstances of the non-dependant.
 8. Since the introduction of the scheme by the Council in 2013, The only other changes made were in line with prescribed requirements and to bring the scheme into line with either Housing Benefit or Universal Credit.

Issues and the proposed changes to the Council Tax Scheme

9. There are a number of issues with the current scheme that will need addressing if the scheme is to be cost effective, continue to provide effective support to the most vulnerable taxpayers and also allow the Council to provide the service in an efficient manner. The main issues are as follows:
 - The need to maintain support to households with the lowest incomes; and

- To assist in the collection of Council Tax and simplify the administration due to the introduction of Universal Credit for working age applicants.

10. Each of the above are examined in detail below:

The need to maintain support to households with the lowest incomes

11. Similar to other authorities, the Council, now requires all working age applicants to pay a minimum of 24% towards their Council Tax (76% maximum support).
12. Any new scheme will need to balance the need for a reduction in overall costs whilst protecting the most vulnerable.
13. The costs of administration of these cases by the Council has increased significantly over the years. These costs are borne solely by the Council.

Council Tax Reduction and the roll out of Universal Credit

14. The introduction of Universal Credit within the area has, as experienced in all other areas, brought a number of significant challenges to both the administration of Council Tax Reduction and also the collection of Council Tax generally.
15. All Councils have experienced the following:
 - The reluctance of Universal Credit claimants to make a prompt claim for Council Tax Reduction leading to a loss in entitlement;
 - A high number of changes to Universal Credit cases are received from the Department for Work and Pensions requiring a change to Council Tax Support entitlement. This currently stands at c40,000 per annum and is expected to rise to c50,000 changes per annum from the end of 2025. On average, 40% of Universal Credit claimants have between eight and twelve changes in entitlement per annum. These changes result in amendments to Council Tax liability, the re-calculation of instalments, delays, and the demonstrable loss in collection; and
 - The increased costs of administration through multiple changes with significant additional staff and staff time being needed.
16. It is clear that the existing means tested Council Tax Reduction scheme, which is too reactive to change, will not be viable in the longer term now that Universal Credit has been rolled out fully within the area and the increase in the number of Universal Credit claimants due to the rises. It should also be noted that the DWP are also moving **all** existing legacy benefit cases (including Housing Benefit only cases) across to Universal Credit by 2025 In effect, this move will increase the number of Universal Credit cases in the area by almost 30%.
17. The move to a new, future proofed, more efficient Council Tax Reduction scheme from 2025 is now imperative.

The need for a simplified approach to the Council Tax Reduction Scheme.

18. Notwithstanding the effects of Universal Credit, the existing scheme is based on an 'old fashioned;' means tested benefit scheme. It has major defects namely:
- It is complex for customers to understand and is based on a complex calculation of entitlement;
 - The administration for staff is complex, with staff having to request significant amounts of information from applicants;
 - Staff have to undergo significant training to be proficient in processing claims;
 - The timescales for processing applications is lengthy, mainly due to the complexity and evidence required to support the applications; and
 - The administration of the scheme is costly when compared to other discounts for Council Tax.
19. Clearly there is a need now to simplify the scheme, not only to mitigate the effects of Universal Credit, but also make it easier for customers to make a claim and to significantly reduce the costs of administration. Depending on the scheme design, the administration costs could reduce significantly.

The recommended approach for the Council Tax Reduction Scheme

20. In view of the problems being experienced with the current scheme, it is recommended that a new approach be taken. The new approach fundamentally redesigns the scheme to address all of the issues highlighted and in particular;
- (a) The level of support available to the poorest households;
 - (b) The problems with the introduction of full-service Universal Credit; and
 - (c) The significant increase in administration costs due to the high level of changes received in respect of Universal Credit;
21. The recommended approach to the new scheme has a number of key features as follows:
- Introducing an income banded scheme for all working age applicants. This will provide an increased level of support;
 - Remove the charges for Non-Dependant;
 - Disregarding a number of elements of Universal Credit;
 - Replacing the current earnings disregards with a standard £50 per week disregard for any amount of earnings;
 - Supporting families by continuing to disregard all Child Benefit and Child Maintenance ;
 - Continuing to disregard disability benefits (Personal Independence Payments, Armed Forces Independence Payments, Disability Living Allowance) and providing an additional disregard of £50 per week where the applicant, partner or dependant is disabled;

- Disregarding the support component of Employment and Support Allowance and Carer's Allowance;
- Continuing to protect War Pensioners by disregarding War Pensions or War Disablement pensions in full;
- Maintaining the capital limit (maximum capital) at £6,000; and
- Removing the Extended Payment Provisions.

22. Table 1 shows the level of discount that will be available.

Table 1

Discount	Weekly Net Income			
	Single	Couple	Family with 1 dependant	Family with 2 or more dependants
Band 1* 78%	£0 to £125.00	£0 to £175.00	£0 to £225.00	£0 to £325.00
Band 2 60%	£125.01 to £175.00	£175.01 to £225.00	£225.01 to £275.00	£325.01 to £375.00
Band 3 40%	£175.01 to £225.00	£225.01 to £275.00	£275.01 to £325.00	£375.01 to £425.00
Band 4 20%	£225.01 to £275.00	£275.01 to £325.00	£325.01 to £375.00	£425.01 to £475.00
Band 5 0%	£275.01 or more	£325.01 or more	£375.01 or more	£475.01 or more

* Where any applicant, or their partner are in receipt of Income Support, Job Seeker's Allowance (Income Based) or Employment and Support Allowance (Income Related), discount will be awarded as shown in Band 1.

23. Similar schemes implemented within a large number of other authorities have the following key elements although the final scheme adopted by the Council will be subject to final agreement by the Council:

- the highest level of discount is payable to those on the lowest income;

- The scheme allows for variation in household size with the levels of income per band increasing where an applicant has a partner, and / or dependants;
- the scheme will still have a capital limit; and
- the scheme will protect the most vulnerable

How the new scheme will address the problems with the current Council Tax Reduction

24. With the simplicity of the proposed new scheme and by taking a more 'Council Tax discount approach', it will address the problems associated with the increased administration caused by failings in the current scheme and Universal Credit as follows:

(a) **The scheme will require a simplified claiming process.** All applicants will see a significant reduction in the claiming process and, where possible, Council Tax Reduction will be awarded automatically. Where information is received from DWP, the entitlement to Council Tax Reduction will be processed automatically without the need to request further information from the taxpayer. These changes will have the following distinct advantages namely:

(i) **Speed of processing** – all claims will be able to be calculated promptly and largely automatically without the need to request further information which inevitably leads to delays;

(ii) **Maximising entitlement to every applicant.** As there will no requirement or Universal Credit applicants to apply separately for Council Tax Reduction, and for all other applicants, the claiming process will be simplified significantly. Entitlement to Council Tax Reduction will be maximised with a reduced risk of loss of discount or the need for backdating;

(iii) **Maintenance of collection rates** – the new scheme will avoid constant changes in discount, the need for multiple changes in instalments and therefore assist in maintaining high collection rates.

(b) **The income bands will be sufficiently wide to avoid constant changes in discount.**

The current Council Tax Reduction scheme is very reactive and will alter even if the overall change to the person's liability is small. This is leading to constant changes in Council Tax liability, the need to recalculate monthly instalments and the requirement to issue a large number of Council Tax demands. The effect of this is that Council Tax collection is reduced. The new scheme, with its simplified income banding approach will have the following advantages:

- (i) Only significant changes in income will affect the level of discount awarded;
- (ii) Council Taxpayers who receive Council Tax Reduction will **not** receive multiple Council Tax demands and adjustments to their instalments; and
- (iii) The new scheme is designed to reflect a more modern more administratively efficient approach.

The effect of proposed scheme on individual households

25. The proposed changes will have an effect on households within the Council's area although maintaining the same level of maximum support will ensure that most applicants will be unaffected
26. In order to mitigate some of the losses, it is proposed that the Council's Exceptional Hardship Scheme will be maintained to protect individuals who experience exceptional hardship. Where any applicant is likely to experience exceptional hardship, they will be encouraged to apply for an additional payment. The Council will consider all applications for exceptional hardship on an individual basis, taking into account available income and essential outgoings. Where appropriate further support will be given to the applicant.
27. This approach will enable individual applicants to be dealt with in a fair and equitable manner. The Exceptional Hardship Scheme will form part of the Council Tax Reduction scheme and fall to be paid through the Collection Fund.

Transition to the new scheme.

28. In deciding on any new scheme, the Council must be mindful that any change in scheme or a transition to a new scheme may have result in a change to the entitlement of certain applicants. Inevitably, with any change in scheme, there will be some winners and losers although the proposed scheme will be designed to protect the most vulnerable.
29. To mitigate this, the new scheme will contain additional provisions to protect individuals who experience exceptional hardship and as mentioned earlier, where any applicant is likely to experience exceptional hardship, they will be encouraged to apply for an Exceptional Hardship payment. This approach will enable individual applicants to be dealt with in a fair and equitable manner.

Consultation (including Scrutiny Committee)

30. On 3 September 2024 Scrutiny Committee recommended that the Council will consult with the public and Major Precepting Authorities on the introduction of a new income banded / grid scheme for working age applicants.
31. A full consultation has been undertaken in line with the statutory requirement and Full details of the public responses are provided within Appendix A of this report.
32. The Council has worked with the major preceptors to monitor the costs and success of the scheme. These proposals have been discussed with Essex County Council and other preceptors. The Preceptors are finalising an annual sharing agreement that will prioritise income recovery and therefore there is a requirement that the scheme promotes prompt

reporting of changes in circumstances and minimises Council Tax discount fraud, which directly impacts all Taxpayers.

33. A summary of the responses for each of the question relating to the key changes are shown below:

Question	Agree (%)	Disagree (%)	Don't Know (%)
Do you agree with introducing an income-based banded discount scheme as shown above?	57.97	20.29	21.74
Do you agree with removing Non Dependant Changes	50.00	33.87	16.13
Do you agree with disregarding a number of elements of Universal Credit	60.32	23.81	15.87
Do you agree with replacing the current earnings disregards with a standard £50 per week disregard for any amount of earnings	62.30	14.75	22.95
Do you agree with supporting families by continuing to disregard all Child Benefit and Child Maintenance	73.33	16.67	10.00
Do you agree with continuing to disregard disability benefits (Personal Independence Payments, Armed Forces Independence Payments, Disability Living Allowance) and providing additional disregards of £50 where the applicant, partner or dependant is disabled	75.86	12.07	12.07
Do you agree with disregarding the support component of Employment and Support Allowance and Carer's Allowance	75.44	15.79	8.77
Do you agree with continuing to protect War Pensioners by disregarding War Pensions or War Disablement pensions in full	81.82	9.09	9.09
Do you agree with maintaining the capital limit (maximum capital) at £6,000 but with no assumed or 'tariff' income	67.92	18.87	13.21
Do you agree with removing the Extended Payment Provisions	78.85	9.62	11.54

It should be noted that the majority of all responses received from the public agreed with ALL of the proposed changes.

Finance

26. The current Council Tax Reduction scheme costs approximately £6,713,701 which is borne by the Council's Collection Fund. Costs are shared between the Council and the Major Precepting Authorities in the following proportions:
- a) Harlow District Council (13.5%)
 - b) Essex County Council (71%)

- c) Essex Police and Crime Commissioner (11.5%)
- d) Essex Fire & Rescue Service (4%).

27. The approach and 'shape' of the scheme is changing, and the overall approach will be to provide additional support to those households on the very lowest incomes. There is no intention to reduce the level of support available to other households. Based on current modelling, were the new scheme to be in place at the current time, the costs would be £7,173,026.
28. Financial modelling has been undertaken and will continue to be undertaken throughout the project.

Effect on the taxbase

29. Whilst the expected costs of the scheme for will be higher, the overall level of Council Tax Reduction as a proportion of the Council Tax Base has reduced year on year since 2013 as shown below. CTR as a percentage of the taxbase is now over 38.5% less than in 2013.

Financial Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	% increase /decrease since 2013
Tax Base (Band D)	31,830	32,364	32,412	32,738	33,115	33,658	34,194	34,669	35,191	35,526	35,595	11.82%
CTR (Band D)	5,561	5,138	4,749	4,453	4,312	4,326	4,160	4,223	4,197	3,980	3,809	-31.5%
%age	17.4%	15.9%	14.6%	13.6%	13.0%	12.8%	12.2%	12.2%	11.9%	11.2%	10.7%	-38.5%

The annual reduction in caseload

30. The overall CTR caseload is reducing year on year mainly due to the increasing income of pensioners (this is in line with all other English Authorities) and whilst the working age caseload increased temporarily through the COVID crisis, this is again reducing and is expected to reduce further from now on. The caseload has reduced by 30% since 2013.

Year	Pension Age Caseload	Working Age Caseload	Total
2013	3,819	5,302	9,121
2014	3,673	5,189	8,862
2015	3,547	4,890	8,437
2016	3,291	4,469	7,760
2017	3,027	4,147	7,174

2018	2843	4,427	7,270
2019	2706	4,307	7,013
2020	2486	4,690	7,176
2021	2397	4,808	7,205
2022	2315	4,446	6,761
2023	2277	4,113	6,390

31. Both of the above show clearly that the proposed changes would still represent a significant reduction in the proportion of costs in real terms compared to the original Council Tax Reduction level.

The effect on collection rates for working age applicants.

32. Since the scheme was introduced in 2013 the collection rate for the working age cohort has reduced significantly. In 2023/24 the overall collection rate was 94.55%. For CTR cases who are pension age the collection rate was 87.80% but the working age CTR cohort was only 76.27%. In most cases the sums outstanding now are far more than the household's ability to pay.

Implications

Equalities and Diversity

A full equalities impact assessment is shown at Appendix B.

Climate Change

The proposals have no adverse effect on climate change and the simplification will reduce the number of changes produced and reduce documentation issued to taxpayers.

Finance

The cost of the CTR scheme is estimated as part of the annual tax base and included within the Council's budget and Medium Term Financial Plan.

Based on current financial modelling, the reports advises that the new scheme is expected to cost approximately £7,173,026. This is an approximate increase of £459,325, (6.7%) at this point in time based on the number of current caseloads. Harlow Districts Council share of the Council Tax is 13.5%, therefore resulting in an approximate small cost of £62,001.

The Taxbase data shows that the cost of CTR as a % continues to decrease against the tax base. The small additional cost of the new proposed scheme would be absorbed as the CTR costs reduce year on year.

The new proposed scheme is expected to be a more simplified process. The efficiencies in processing time may also lead to further reductions in the cost of scheme, as it will provide the

team with more time to review and challenge cases where changes are thought to have occurred.

Collection rates are also predicted to improve, as low income households are supported and therefore improved debt recovery.

Financial modelling will continue to be undertaken as CTR caseloads change throughout the financial year so the expected costs will be refined as part of this and the final figures will be built into the Medium Term Financial Plan as part of the budget process.

Finance Author: Jacqueline Van Mellaerts, Assistant Director Finance and Section 151 Officer

Governance

Local Council Tax Support came into effect on 1 April 2013 pursuant to the Local Government Finance Act 1992. Section 13A(2) of that Act (as amended) provides: 'Each billing authority in England must make a scheme specifying the reductions which are to apply to amounts of council tax payable, in respect of dwellings situated in its area, by— (a) persons whom the authority considers to be in financial need, or (b) persons in classes consisting of persons whom the authority considers to be, in general, in financial need.'

Schedule 1A of that Act prescribes what must be included in a Council Tax Reduction Scheme, and places a duty on the authority, each financial year, to consider whether to revise its scheme or replace it with another scheme. The scheme states the classes of person who are to be entitled to a reduction, the type of reduction and whether there are different reductions for different classes. The scheme should also set out the procedure to apply for a reduction and the appeal procedure.

Before preparing a scheme, the authority must (in the following order):

- (a) Consult any major precepting authority which has power to issue a precept to it,
- (b) Publish a draft scheme in such manner as it thinks fit, and
- (c) consult such other persons as it considers are likely to have an interest in the operation of the scheme.

The Council Tax Reduction Schemes (Prescribed Requirements) (England) 2012 further prescribes what must be included in the scheme. The scheme must be approved by Full Council no later than 11 March before the financial year it relates to. After approval, the scheme must be published.

Since the introduction of CTR schemes, there have been a number of legal challenges against other local schemes. Most of these challenges have been in relation to the consultation undertaken and have questioned whether due regard was given to any equality impact assessment when changes were made to schemes.

A Supreme Court ruling in 2014 (*R. (on the application of Moseley) v London Borough of Haringey*) determined that consultation on changes to council tax reduction schemes must provide such information as necessary in order for consultees to express meaningful views on the proposal. Enough had to be said about realistic alternatives, and the reasons for a

preferred choice, to enable the consultees to make an intelligent response in respect of the scheme. This would include an option for any current scheme to be retained on the same level of funding with a consequent reduction in funding for other services.

The scheme has been considered by Scrutiny Committee prior to consultation process.
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Appendices

Appendix A - Responses from the consultation with the Public.

Appendix B – Council Tax Reduction Scheme – Equality Impact Assessment.

Glossary of terms/abbreviations used

CTR – Council Tax Reduction